

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Ruth Hughes Memorial District Library	County Lapeer
Audit Date 12/31/05	Opinion Date 6/30/06	Date Accountant Report Submitted to State: 7/13/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

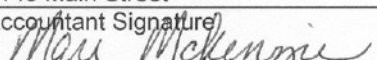
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name) Yeo & Yeo, P.C. CPAs			
Street Address 3149 Main Street	City Marlette	State MI	ZIP 48453
Accountant Signature 			

**Ruth Hughes Memorial District Library**

**Annual Financial Statements**

**and**

**Auditors' Report**

**December 31, 2005**

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**Ruth Hughes Memorial District Library**  
**Imlay City, Michigan**  
**List of Elected and Appointed Officials**  
**December 31, 2005**

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LIBRARY BOARD

DONALD DAVENPORT

PRESIDENT

NANCY MARSHALL

VICE PRESIDENT

LAURIE DODGE

SECRETARY

LINDA PRENDERGAST

TREASURER

MARY LOU BISSETT

TRUSTEE

BETTIE KOERBER

TRUSTEE

KAREN HIBBLER

TRUSTEE

ADMINISTRATION

BRYAN CLOUTIER

LIBRARY DIRECTOR



3149 Main Street, Suite Plaza #4  
Marlette, MI 48453  
Phone (989) 635-7518  
Fax (989) 635-3226

## Independent Auditors' Report

To the Board  
Ruth Hughes Memorial District Library  
Imlay City, Michigan

We have audited the basic financial statements of the Ruth Hughes Memorial District Library, as of and for the year ended December 31, 2005, as listed in the table of contents. The financial statements are the responsibility of the Ruth Hughes Memorial District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Ruth Hughes Memorial District Library, at December 31, 2005 and its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Yeo & Yeo, P.C.*

Marlette, Michigan  
June 30, 2006

**Ruth Hughes Memorial District Library**  
**Imlay City, Michigan**  
**Management's Discussion and Analysis**  
**December 31, 2005**

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This section of the financial report provides discussion and analysis of the Ruth Hughes Memorial District Library's financial performance during the year ended December 31, 2005. The intent of this discussion and analysis is to provide comprehensive review of the Library's financial activities and provide a look at its past and current financial position. Readers should also review the Library's financial statements, immediately following this section, to enhance their understanding of the Library's overall fiscal year 2005 performance.

This financial report is presented in the format required by the Governmental Accounting Standards Board (GASB) in their Statement Number 34, issued in June of 2000.

#### **Using This Annual Report**

This annual report consists of the following three parts: management's discussion and analysis (this section), basic financial statements and the required supplemental information.

These statements are organized to help the reader understand the financial position of the Ruth Hughes Memorial District Library as a whole. The government-wide financial statements provide information about the overall activities of the Library. The fund financial statements provide more detailed information about the Library's special revenue fund. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The last section of this audit includes required supplemental information that supports and provides further clarity of the financial statements with a budgetary comparison schedule of fiscal year 2005 budget.

#### **Government-Wide Financial Statements**

The Government-wide statements provide financial information of the Library as a whole. They report on the governmental activities of the Library, which includes most of the Library's basic services, including

programming, technology and building improvements. These activities are primarily funded by property taxes, penal fines and state shared revenue. These statements use the full accrual basis of accounting, similar to private sector companies. There are two Government-wide statements: the Statement of Net Assets and the Statement of Activities.

The **Statement of Net Assets** includes all the assets and liabilities of the Library, whether short-term or long-term, and regardless of whether or not they are currently available. As a result, capital assets and long-term obligations of the Library are included in this statement.

The **Statement of Activities** accounts for current year revenues regardless of when cash is received or paid, consistent with the full accrual basis method of accounting. The intent of this statement is to summarize and simplify the user's analysis of the costs of various Library services.

When analyzed together, these two statements help the reader determine whether the Library is financially stronger or weaker as a result of the year's activities. Both statements report the Library's net assets, which is the difference between the library's assets and liabilities.

The change in net assets is one way to measure the Library's financial health or position. Over time, increases and decreases in the Library's net assets are an indicator of the stability of the Library's financial health. However, as a public services oriented governmental entity, the Library's goal is to provide a service to our community, not generate profits, as would a private corporation. As a result, other non-financial factors should be considered in assessing the overall health of the Library. Such factors would include the condition of the District Library's facilities and the property tax base within the District.

**Ruth Hughes Memorial District Library**  
**Imlay City, Michigan**  
**Management's Discussion and Analysis**  
**December 31, 2005**

**Fund Financial Statements**

The fund financial statements focus on providing more detailed information about the major funds of the Library and not on the Library as a whole, as reported in the Government-wide statements. The fund level statements are reported on a *modified accrual basis*. Only those assets that are “*measurable*” and “*currently available*” are reported. Liabilities are identified and the terms are paid with yearly revenue, and/or funds allocated from the Library’s ‘fund balance’ as approved by the executive board. The fund statements provide a detailed short-term view of the Library’s operations and help in determining whether there are more or less financial resources available in the near future to finance the Library’s programs and services provided.

**Summary of Net Assets**

<b>Government activities</b>	<b><u>2005</u></b>	<b><u>2004</u></b>
<b>Assets</b>		
Current assets	\$ 662,802	\$ 609,344
Capital assets	<u>821,875</u>	<u>854,345</u>
Total assets	<u>1,484,677</u>	<u>1,463,689</u>
<b>Liabilities</b>		
Current liabilities	33,547	38,741
Long-term liabilities	<u>337,492</u>	<u>363,532</u>
Total liabilities	<u>371,039</u>	<u>402,273</u>
<b>Net Assets</b>		
Invested in capital assets	458,343	465,790
Unrestricted	<u>655,295</u>	<u>595,626</u>
Total net assets	<u>\$1,113,638</u>	<u>\$ 1,061,416</u>

A portion of the Library’s net assets reflect investments in capital assets (land, buildings and improvements, equipment and furniture), less any related outstanding debt used to acquire those assets. The Library uses these capital assets to provide services to patrons; consequently, these assets are not available for future spending. Although, the library’s investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Statement of Net Assets Operating Results**

**Governmental Activities**

	<b><u>2005</u></b>	<b><u>2004</u></b>
<b>Revenues</b>		
Program Revenue		
Charges for services	\$ 4,253	\$ 4,851
Operating grants and contributions	7,460	15,988
General revenue		
Property tax	269,923	242,037
Fines and forfeits	66,537	61,139
State aid - unrestricted	9,792	10,889
Interest and investment earnings	11,869	6,556
Other	<u>3,625</u>	<u>579</u>
Total revenues	<u>373,459</u>	<u>342,039</u>
<b>Expenses</b>		
Recreational and culture	<u>321,237</u>	<u>300,591</u>
Change in net assets	52,222	41,448
Net assets - beginning of year	<u>1,061,416</u>	<u>1,019,968</u>
Net assets - end of year	<u>\$ 1,113,638</u>	<u>\$ 1,061,416</u>

The net assets of the library increased \$52,222 during 2005. The

**Ruth Hughes Memorial District Library**  
**Imlay City, Michigan**  
**Management's Discussion and Analysis**  
**December 31, 2005**

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breakdown of this change is shown above.

The *Statement of Activities* presented later in the Government-wide financial statements provides greater detail on the Library's annual activity. As reported in the Statement of Activities, the cost of all government activities this year was \$321,237. However, the amount that was ultimately financed by our taxpayers through property taxes was \$269,923, \$9,792 in state aid and \$58,948 in penal fine revenue.

The Library levied .8191 mills in property taxes on properties within the District. The District Library's current tax levy is set to expire in August of 2006.

**Local Property Tax History**

<u>Fiscal Year</u> <u>Revenue</u>	<u>% of</u> <u>Revenue</u>	<u>Local</u> <u>Property Tax</u>
2005	75%	\$ 269,923
2004	72%	\$ 236,865
2003	73%	\$ 226,254
2002	64%	\$ 197,064
2001	64%	\$ 181,090

**Budgetary Highlights**

The Ruth Hughes Memorial District Library reallocated funds from the fund balance in order to complete landscaping to the exterior facade of the Library facility. In addition, cuts in spending made it possible to plan for, and complete necessary improvements to the Library's parking lot.

The Library continued its membership in Valley Library Consortium resulting in decreased interlibrary loan expenses. Continued membership in Mideastern Michigan Library Cooperative has made it possible for the Library to participate in the statewide delivery system

which not only saved the library money in postages, but prepares it for future participation in MeLCat, a shared statewide union catalog of library holdings utilized in filling interlibrary loan requests.

**Budget Adjustments**

There were no adjustments made to the Library's operational budget during the 2005 fiscal year. However, the budget and finance committee met with the director following the close of the fiscal year to determine the financial stability of the Library and to determine necessary fiscal data reported in the Library's annual report. Although this is not preferably the method by which the Library generally practices its fiscal procedures, it should not be viewed as detrimental to the overall operations of the Library, nor its financial stability.

**Revenue Threats**

There were no direct threats to revenue during fiscal year 2005. However, recent legislation resulted in a decrease to state aid by nearly ten percent for fiscal year 2006, with additional cuts anticipated for 2007.

Furthermore, the Library's current operational millage will expire at the end of 2006. The five library systems in Lapeer County have worked together to collaborate services for the upcoming millage. The Ruth Hughes Memorial District Library will not be able to continue serving the residents of the District without a renewal and small increase to this tax levy. The five library systems in Lapeer County are seeking a 1.25 mill tax levy for a period of ten-years (to restore .9 mills levied in 1996, to include a .35 mill increase), commencing in January of 2007 thru December of 2016.

**Requests for Information**

This financial report is designed to provide a general overview for anyone interested in the District Library's finances and to demonstrate

**Ruth Hughes Memorial District Library  
Imlay City, Michigan  
Management's Discussion and Analysis  
December 31, 2005**

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the Library's accountability for the revenues it received. Questions concerning this report or requests for additional information should be addressed to:

Ruth Hughes Memorial District Library  
Attention: Bryan J. Cloutier, Director  
211 N. Almont Ave.  
Imlay City, MI 48444-1004  
Telephone: (810) 724-8043  
Facsimile: (810) 724-2602

**Ruth Hughes Memorial District Library**  
**Statement of Net Assets**  
**December 31, 2005**

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	<u>Primary Government</u>
<b>Assets</b>	
Current assets	
Cash	\$ 389,799
Taxes receivable	263,210
Penal fines and other receivables	<u>9,793</u>
Total current assets	<u>662,802</u>
Noncurrent assets	
Capital assets, less accumulated depreciation of \$ 375,950	<u>821,875</u>
Total assets	<u>1,484,677</u>
<b>Liabilities</b>	
Current liabilities	
Accounts payable	661
Accrued payroll and related liabilities	6,846
Noncurrent liabilities	
Building note - due within one year	26,040
Building note - due more than one year	<u>337,492</u>
Total liabilities	<u>371,039</u>
<b>Net Assets</b>	
Invested in capital assets	458,343
Unrestricted	<u>655,295</u>
Total net assets	<u>\$ 1,113,638</u>

See Accompanying Notes to Financial Statements

**Ruth Hughes Memorial District Library**  
**Statement of Activities**  
**Year Ended December 31, 2005**

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
<b>Primary government</b>				
Governmental activities				
Recreational and culture	\$ 321,237	\$ 4,253	\$ 7,460	\$ (309,524)
General revenues				
Property taxes				269,923
Fines and forfeits				66,537
State aid - unrestricted				9,792
Interest and investment earnings				11,869
Other				3,625
Total general revenues				361,746
Change in net assets				52,222
Net assets - beginning				1,061,416
Net assets - ending				\$ 1,113,638

See Accompanying Notes to Financial Statements

**Ruth Hughes Memorial District Library**  
**Balance Sheet**  
**General Fund**  
**December 31, 2005**

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**Assets**

Cash	\$ 389,799
Taxes receivable	263,210
Penal fines and other receivables	<u>9,793</u>
 Total assets	 <u><u>\$ 662,802</u></u>

**Liabilities**

Accounts payable	\$ 661
Accrued payroll and related liabilities	6,846
Deferred revenue	<u>263,210</u>
 Total liabilities	 <u>270,717</u>

**Fund balance**

Unreserved	<u>\$ 392,085</u>
 Total liabilities and fund balance	 <u><u>\$ 662,802</u></u>

See Accompanying Notes to Financial Statements

**Ruth Hughes Memorial District Library**  
**Reconciliation of the Balance Sheet of General Fund to the Statement of Net Assets**  
**December 31, 2005**

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<b>Total general fund balance</b>			\$ 392,085
Total net assets reported for governmental activities in the statement of net assets is different because:			
Deferred property taxes			263,210
Capital assets used in governmental activities are not financial resources are therefore are not reported in the funds. Those assets consist of:			
Buildings and improvements		\$ 939,096	
Land and improvements		56,244	
Computers and equipment		50,221	
Furniture and fixtures		152,264	
Accumulated depreciation		<u>(375,950)</u>	821,875
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances as of December 31, 2005 are as follows:			
Building loan payable			<u>(363,532)</u>
<b>Net assets of governmental activities</b>			<u><u>\$ 1,113,638</u></u>

**Ruth Hughes Memorial District Library**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**General Fund**  
**Year Ended December 31, 2005**

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Revenues	
Taxes	\$ 254,721
Grants	12,102
Charges for services	4,253
Fines and forfeits	66,537
Interest	11,869
Other revenue	2,852
Contributions and gifts	<u>5,923</u>
Total revenues	<u>358,257</u>
Expenditures	
Recreational and culture	278,710
Capital outlay	10,057
Debt payments	<u>25,023</u>
Total expenditures	<u>313,790</u>
Excess of revenues over expenditures	44,467
Fund balance, beginning of year	<u>347,618</u>
Fund balance, end of year	<u>\$ 392,085</u>

See Accompanying Notes to Financial Statements

**Ruth Hughes Memorial District Library**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of**  
**General Fund to the Statement of Activities**  
**Year Ended December 31, 2005**

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<b>Net change in fund balances - general fund</b>		<b>\$ 44,467</b>
Total change in net assets reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Depreciation expense	\$ (42,527)	
Capital outlay	<u>10,057</u>	(32,470)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.		
Property taxes		15,202
Debt repayments are reported as financing uses in the general fund and thus contribute to the change in fund balance. In the statement of net assets, however, repayment of debt decreases long-term liabilities and does not affect the statement of activities.		
Repayments of long-term debt		<u>25,023</u>
<b>Change in net assets of governmental activities</b>		<b><u>\$ 52,222</u></b>

**Ruth Hughes Memorial District Library**  
**Notes to Financial Statements**  
**December 31, 2005**

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**Note 1 – Significant Accounting Policies**

The financial statements of the Ruth Hughes Memorial District Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to the Library. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant policies are described below.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, normally supported by taxes and inter-governmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenue are reported as general revenue.

**Reporting Entity**

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include

those of the Ruth Hughes Memorial District Library. The District Library is the primary government and there are no other component units that should be reported.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Library reports only one fund as follows:

- The General Fund is used to record the operations of the Library which pertain to maintaining and operating the Ruth Hughes Memorial District Library. Included are all transactions related to the approved current operating budget.

**Ruth Hughes Memorial District Library**  
**Notes to Financial Statements**  
**December 31, 2005**

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**Assets, Liabilities and Equity**

Cash – The Library has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of three (3) months or less when acquired.

Receivables – Property taxes are assessed as of December 31 and the related taxes become a lien on March 1 of the following year. The Libraries' taxes are due in July with the final collection date on February 28 before they are added to the County tax rolls. The delinquent real property taxes of the taxing entities are purchased by Lapeer County. These taxes have been recorded as revenue in the current year. Receivables are considered fully collectible and therefore no allowance for doubtful accounts has been made.

Capital assets – Purchased or constructed capital assets are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Library as assets with an initial individual cost of more than \$500. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The Library does not have infrastructure assets. Buildings, furniture and equipment, and leasehold improvements are depreciated using the straight-line method over the following useful lives:

Land improvements	10 to 20 years
Building and building improvements	20 to 40 years
Furniture and fixtures	5 to 10 years
Computers and equipment	5 to 10 years

Fund balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**Note 2 – Budgetary Policies and Data**

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the State. The law requires appropriation acts to be adopted for the Special Revenue Fund.

The Board adopts appropriations utilizing the modified-accrual basis of accounting for all governmental funds. The appropriation level adopted by the Board is the level of control authorized under the Act. The Act requires expenditures to be budgeted on a functional basis. A library is not considered to be in violation of the Act if reasonable procedures are in use by the library to detect violations.

The Ruth Hughes Memorial District Library uses these procedures in establishing the budgetary data reflected in the financial statements:

1. The Library Director submits to the Board a proposed budget by January 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. The Library Director is authorized to transfer budgeted amounts between functions; however, any revisions that alter the total expenditures of any fund must be approved by the Board.
4. The budget for the Special Revenue Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year.

**Excess of Expenditures over Appropriations**

Expenditures exceeded the budget by \$5,604.

# Ruth Hughes Memorial District Library

## Notes to Financial Statements

### December 31, 2005

#### Note 3 – Cash and Investments

Interest rate risk – The Library does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes authorizes the Library to make deposits into accounts of federally insured banks, credit unions and savings and loan associations that have an office in Michigan; the Library is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed or authorized investment vehicles. The Library has no investment policy that would further limit its investments choices.

Concentrations of credit risk – The Library has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. As of December 31, 2005, \$100,000 of the bank balance was covered by federal depository insurance and \$298,155 was uninsured and uncollateralized.

#### Note 4 – Capital Assets

Capital assets for the current year was as follows:

	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2005
Capital assets not being depreciated				
Land	\$ 24,399	\$ -	\$ -	\$ 24,399
Capital assets being depreciated				
Land improvements	24,398	7,447	-	31,845
Building and building improvements	939,096	-	-	939,096
Furniture and fixtures	152,264	-	-	152,264
Computers and equipment	49,611	2,610	(2,000)	50,221
Total capital assets being depreciated	1,165,369	10,057	(2,000)	1,173,426
Less: Accumulated depreciation				
Land improvement	18,909	1,655	-	20,564
Buildings and building improvements	183,113	23,477	-	206,590
Furniture and fixtures	104,090	9,799	-	113,889
Computers and equipment	29,311	7,596	(2,000)	34,907
Total accumulated depreciation	335,423	42,527	(2,000)	375,950
Net capital assets being depreciated	829,946	(32,470)	-	797,476
Governmental activities capital assets, net	\$ 854,345	\$ (32,470)	\$ -	\$ 821,875

Depreciation for the fiscal year ended December 31, 2005, amounted to \$42,527.

#### Note 5 – Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

**Ruth Hughes Memorial District Library**  
**Notes to Financial Statements**  
**December 31, 2005**

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes	\$ 263,210	\$ -

**Note 6 – Deferred Compensation Plan**

The Library offers its employees a Savings Incentive Match Plan for Employees (SIMPLE plan) IRA in accordance with IRS Section 408(p). The plan, available to Library employees earning at least \$5,000 in annual compensation, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or an unforeseeable emergency. The employer matches employee contributions at 3% of the employees elected salary contribution up to a maximum of \$1,000 annually. Employer costs for the year ended December 31, 2005 were \$1,252. The administrator provides direction to the custodian, from time to time, regarding the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with accounting principles generally accepted in the United States of America, plan balances and activities are not reflected in the Library's financial statements.

**Note 7 – Long-Term Debt**

Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

	<u>Beginning</u>			<u>Ending</u>	<u>Amount</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Due Within</u>
					<u>One Year</u>
Building note payable	\$ 388,555	\$ -	\$ 25,023	\$ 363,532	\$ 26,040

Future principal and interest (3.99%) requirements for the building note,

with final payment due March 2017, to be paid out of the Special Revenue Fund is as follows:

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	26,040	14,032	40,072
2007	27,098	12,974	40,072
2008	28,199	11,873	40,072
2009	29,345	10,727	40,072
2010	30,538	9,534	40,072
2011-2015	172,344	28,016	200,360
2016-2017	49,968	1,369	51,337
	<u>363,532</u>	<u>88,525</u>	<u>452,057</u>

**Note 8 – Risk Management**

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The District Library has purchased commercial insurance which covers general liability, auto liability, property damage, boiler and machinery, inland marine and injuries to employees. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Ruth Hughes Memorial District Library**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended December 31, 2005**

	Original and Final Budgeted Amounts	Actual	Actual Over (Under) Final Budget
Revenues			
Current local taxes	\$ 226,000	\$ 251,543	\$ 25,543
Delinquent taxes	1,000	3,178	2,178
State Aid	10,000	9,792	(208)
Grants	-	2,310	2,310
Audio books	315	304	(11)
Copies	1,815	2,418	603
Fax	700	991	291
Patron cards	410	540	130
Miscellaneous	40	920	880
Library fines	5,550	7,589	2,039
Penal fines	56,500	58,948	2,448
Interest earned	4,500	11,869	7,369
Friends of the library	1,000	2,207	1,207
Other contribution from private sources	351	3,716	3,365
Refunds and rebates	-	1,882	1,882
Other	5	50	45
Total revenues	<u>308,186</u>	<u>358,257</u>	<u>50,071</u>
Expenditures			
Wages and salaries	141,899	144,917	3,018
Payroll taxes	10,855	11,086	231
Retirement fund contribution	4,000	1,252	(2,748)
Health insurance	9,169	9,140	(29)

**Ruth Hughes Memorial District Library**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended December 31, 2005**

	Original and Final Budgeted Amounts	Actual	Actual Over (Under) Final Budget
Books	26,444	21,856	(4,588)
Audio books	500	91	(409)
Compact discs	2,500	1,034	(1,466)
Videos	800	761	(39)
Periodicals and reference	3,400	3,378	(22)
Supplies	4,275	10,697	6,422
Professional and contractual services	27,141	22,679	(4,462)
Postage	1,000	780	(220)
Insurance	7,800	8,445	645
Library programs	750	2,573	1,823
Continuing educations	2,100	2,031	(69)
Building maintenance and repair	2,075	4,021	1,946
Travel	400	758	358
Library promotion	150	30	(120)
Utilities	17,546	17,316	(230)
Membership dues	473	478	5
Miscellaneous	662	215	(447)
Refunds and rebates	275	123	(152)
Capital outlay	3,900	10,057	6,157
Debt principal	25,023	25,023	-
Debt interest	15,049	15,049	-
Total expenditures	308,186	313,790	5,604
Excess (deficiency) of revenues over expenditures	-	44,467	44,467
Fund balance - beginning of year	347,618	347,618	-
Fund balance - end of year	\$ 347,618	\$ 392,085	\$ 44,467